

**RESULTS – 3Q/FY10**

10 Nov 2010

For period Jul-Sept 2010

TH Plantations		Price:	RM1.70
		Market Capitalisation:	RM829.3
		Board:	Main Board
Stock Code/Name:	5112 / THPLANT	FBM Index:	EMAS Shariah / Small Cap
Recommendation:	BUY	Sector:	Plantation

Analyst: Edmund Tham

Key Stock Statistics	2010E
EPS (sen)	13.9
P/E (x)	12.2
Dividend/Share (sen)	9.5
NTA/Share (RM)	1.00
Book Value/Share (RM)	1.00
Issued Capital (mil shares)	487.8
52-weeks share price (RM)	1.40 – 1.76
Major Shareholder:	%
Lembaga Tabung Haji (LTH)	66.6

3Q/ 30 Sep	3Q10	3Q09	yov %	2Q10	qoq%
Rev (RMm)	84.2	72.1	16.8	76.0	10.8
EBIT (RMm)	35.4	15.5	128.2	14.4	144.8
NPAT (RMm)	21.5	12.8	67.6	7.6	183.0
EPS (sen)	4.4	2.6	67.6	1.6	183.0

9M/ 30 Sep	9M10	9M09	yov %
Rev (RMm)	237.4	217.0	9.4
EBIT (RMm)	78.7	38.7	103.2
NPAT (RMm)	46.9	31.3	50.1
EPS (sen)	9.6	6.4	50.1

Per Share Data	2007*	2008*	2009	2010E
Book Value (RM)	0.51	0.82	0.93	1.00
Earnings (sen)	15.6	17.2	11.0	13.9
Dividend (sen)	10.5	8.8	8.5	9.5
Payout Ratio (%)	49.8	37.8	57.8	51.2
PER (x)	10.9	9.9	15.4	12.2
P/Book Value (x)	3.3	2.1	1.8	1.7
Dividend Yield (%)	6.2	5.1	5.0	5.6
ROE (%)	30.4	21.0	11.9	13.9
Net Gearing (cash) (x)	(0.01)	(0.10)	0.17	0.11

*figures adjusted for 1:1 bonus in Jan 2009

P&L Analysis (RM mil)	2007	2008	2009	2010E
Year end: Dec 31				
Revenue	175.6	243.4	304.4	329.9
Operating Profit	82.5	115.6	78.9	117.3
Depreciation	(8.3)	(8.5)	(8.7)	(8.9)
Interest Expenses	0.0	(0.0)	(8.0)	(9.6)
Pre-tax Profit	82.5	115.5	70.9	107.7
Effective Tax Rate (%)	25.9	27.8	19.5	24.9
Net Profit	61.3	84.1	53.8	67.9
Operating Margin (%)	47.0	47.5	25.9	35.5
Pre-tax Margin (%)	47.0	47.5	23.3	32.6
Net Margin (%)	34.9	34.5	17.7	20.6

*RM0.50 par value

*CPO=crude palm oil; PK=palm kernel; FFB=fresh fruit bunch

PERFORMANCE

TH Plantation's (TH Plant) 3Q/FY10 performance was better than we expected. Nevertheless, TH Plant's annualized 9M/FY10 revenue was spot-on with our earlier full-year FY10 estimates while TH Plant's net profit after tax (NPAT) was about 10% higher than our earlier expectations.

“3Q came in stronger than expected”

For the 3Q/FY10 ended 30th September 2010, TH Plant recorded a 16.8% y-o-y revenue increase to RM84.2 million. This increase was mainly due to the higher q-o-q commodity prices for both CPO and PK, despite of the lower group sales volumes. Group profit before tax (PBT) for 3Q/FY10 was higher by 156.4% y-o-y to RM34.7 million. This was mainly due to the higher revenue, lower cost of sales and higher gross profit margins.

For 9M/FY10 ended 30th September 2010, TH Plant recorded a 9.4% y-o-y revenue increase to RM237.4 million. This increase was mainly due to the higher q-o-q commodity prices for both CPO and PK, despite of the lower sales volumes. Group PBT for 9M/FY10 was higher by 97.0% y-o-y to RM74.4 million, mainly due to the higher palm commodity

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prices, lower cost of sales and lower “other operating expenses”.

Comparing q-o-q versus 2Q/FY10, TH Plant’s 3Q/FY10 revenue was higher by 11%, mainly due to the higher sales for CPO and PK, and also the higher plantation management fees earned as compared to 2Q/FY10. Group PBT was higher q-o-q as well, due to the higher gross profit margin and higher “other income” recorded.

OUTLOOK/CORP. UPDATES

Overall, TH Plant’s sales volumes have been weaker than we expected during its 9M/FY10. Nevertheless, the generally better y-o-y CPO and PK prices have more than mitigated this.

In the upcoming months, we expect factors such as the **La Nina** weather phenomenon (unusually heavy rains can affect harvesting and thus results in lower CPO yields and stockpiles), strong global demand and the tight global supply situation to prop up CPO prices. Furthermore, **soybean and crude oil** prices have also generally been stronger in recent months. CPO prices do move to a certain extent in correlation with both soybean and crude oil prices. In general, the global prices of edible oils are on the uptrend.

“Strong CPO price trend”

Based on the recent CPO commodity price trends, TH Plant should continue to record steady revenue and profit growth in its FY10 and FY11. The group’s revenue growth would mostly depend on any upside in CPO prices and organic FFB production expansion, barring any future plantation land bank acquisitions. We expect TH Plant’s ASP (average selling price) for CPO to be in the RM2700-3200/mt range for the next few months. Nevertheless, TH Plant’s FFB production from its plantation operations would continually be affected by seasonal crop factors, weather and climate conditions.

“ROE & Dividend FY10 KPI targets on track”

In March 2010, TH Plant announced that its new FY10 KPI targets were to achieve 12.0% ROE, 21.6 mt/ha FFB yield (metric tonne per mature hectare) and to distribute approximately 50% of its annual net profits after tax and minority interest (NPATMI) as dividend.

As at 30th September 2010, the group had achieved a 13.5% annualized ROE while the distribution of dividends based on its annual net profit after tax will be done after finalization of the group’s financial year 2010 audited financial statements. We foresee that the group would have no problem to meet the dividend payout target of 50%. However, the group’s management will strive to achieve its full-year targeted yield of 21.6mt per hectare despite of the cyclical nature of plantation industry and unforeseen weather conditions throughout the remaining period of the year.

TH Plant has displayed commitment and noble intentions towards fulfilling its **Corporate Social Responsibilities (CSR)**. These include measures and activities for the employees (training, OSH), community (zakat, schools, flood victims etc) and the environment (zero-burning).

VALUATION

Despite of TH Plant’s lower than expected CPO sales volume, we have tweaked our estimates higher for its full-year FY10 revenue and earnings. This is mainly due to the higher selling prices for palm commodities.

With the global economy on the recovery path in 2010-2011, we expect the picture for plantation companies to look rosier in 2011, as compared to the year before. Nevertheless, there remain various sector/business risks from commodity price volatilities, demand fluctuations, supply constraints, sector inventory levels, contractual timing differences, foreign exchange translation, weather/crop yield variations and operational costs.

“Better DPS expected”

During the second quarter ended 30th June 2010, the group had declared and paid a final gross dividend of 8.5 sen per share (less tax 25%) for FY09 ended 31st December 2009, amounting to RM31.1 million. For FY10, we estimated that TH Plant would declare a higher gross dividend per share (DPS) of 9.5 sen, reflecting a dividend payout of 51.2%. This is given that the group targets to pay-out approximately 50% of its annual NPATMI each year.

Results Coverage

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TH Plant has an adjusted beta (correlation factor) to the KLCI of 0.80. In 2010, the stock is up by an encouraging 16.4% YTD (slightly underperforming the KLCI, which is up by 20.0% YTD). Based on our forecast of TH Plant's FY10 EPS and a reasonable expected P/E of 14 times, we derive a **FY10-end target price of RM1.95**, which is 14.6% higher than its current market price.

“Upgrade to Buy Call based on better expected ASPs”

At 14 times P/E, TH Plant is still below its other plantation peers' average P/E valuation (15.9 times) and thus it is not considered an expensive valuation. With CPO futures surging beyond the RM3300/mt level, we maintain optimistic on TH Plant's CPO and PK ASPs (average selling prices) and hence its share price upside. As such, we are re-rating TH Plant from a Hold Call to a **Buy Call**.

“Further upside dependent on CPO prices, sales volume and land-bank acquisitions”

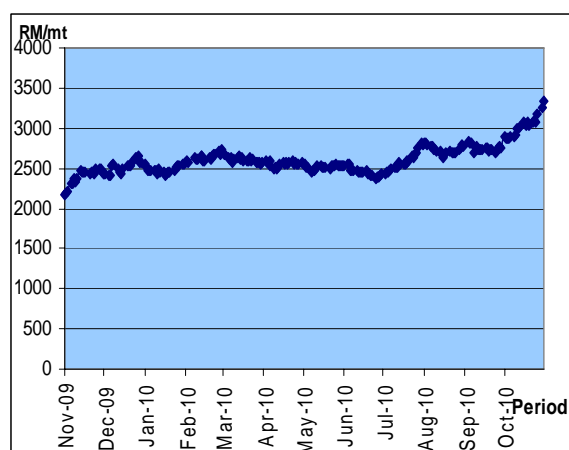
Any further earnings growth and hence valuation upside for TH Plant would depend mainly on the strength of palm commodity prices, its sales volumes and future plantation land bank acquisitions. Meanwhile, with its minimal gearing position, TH Plant would be easily able to consider future land bank acquisitions from either its main shareholder i.e. Lembaga Tabung Haji (LTH) or other parties as well.

TH Plant: 6-month chart



Source: NextView

CPO prices: 12-month chart



Source: Bloomberg

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